

## **Adjusting for local difference in resident training costs: study due March 2002**

**ISSUE:** Is the geographic adjustment factor (GAF) Medicare uses to adjust physician payments appropriate for adjusting direct GME payments for geographic differences in the cost of residency training? The BBRA directed MedPAC to study this question. The Congress would like MedPAC to make recommendations by March 2002.

**KEY POINTS:** Medicare's direct GME payments for residents are based on hospital-specific per resident costs from a base year updated for inflation. These hospital-specific per resident payment amounts vary widely, from below \$20,000 to well over \$100,000 per resident. The BBRA reduced variation in these amounts by establishing a minimum per resident payment amount for hospitals at the lower end of the distribution (70 percent of the geographic adjusted national average) and a reduced update for hospitals at the upper end of the distribution (140 percent of the geographic adjusted national average). BIPA made further revisions, increasing the floor to 85 percent of the geographic adjusted average.

A geographic adjustment is used so the floors and ceilings for direct GME payments reflect local market circumstances. The Congress chose the physician GAF to adjust for these differences. The physician GAF is one of several indices that could be used to determine a locality adjusted national average per resident amount. Alternatives include the hospital wage index, a resident and teaching physician wage index, or an index based on average per resident payment amounts or per resident costs for a particular geographic area.

This issue would be moot if the Congress adopted the Commission's previous recommendations on payments to teaching hospitals. Those recommendations would fold the costs of direct GME into the payment base, and the higher patient care costs of teaching hospitals would be recognized through a revised teaching hospital adjustment. Payments in effect would be adjusted to reflect teaching intensity, the hospital wage index, and case-mix of a given hospital.

**ACTION:** At this meeting the Commission needs to give staff guidance on whether to develop an alternative locality adjustment for use in setting per resident payments.

**STAFF CONTACT:** Craig Lisk (202-653-2628)